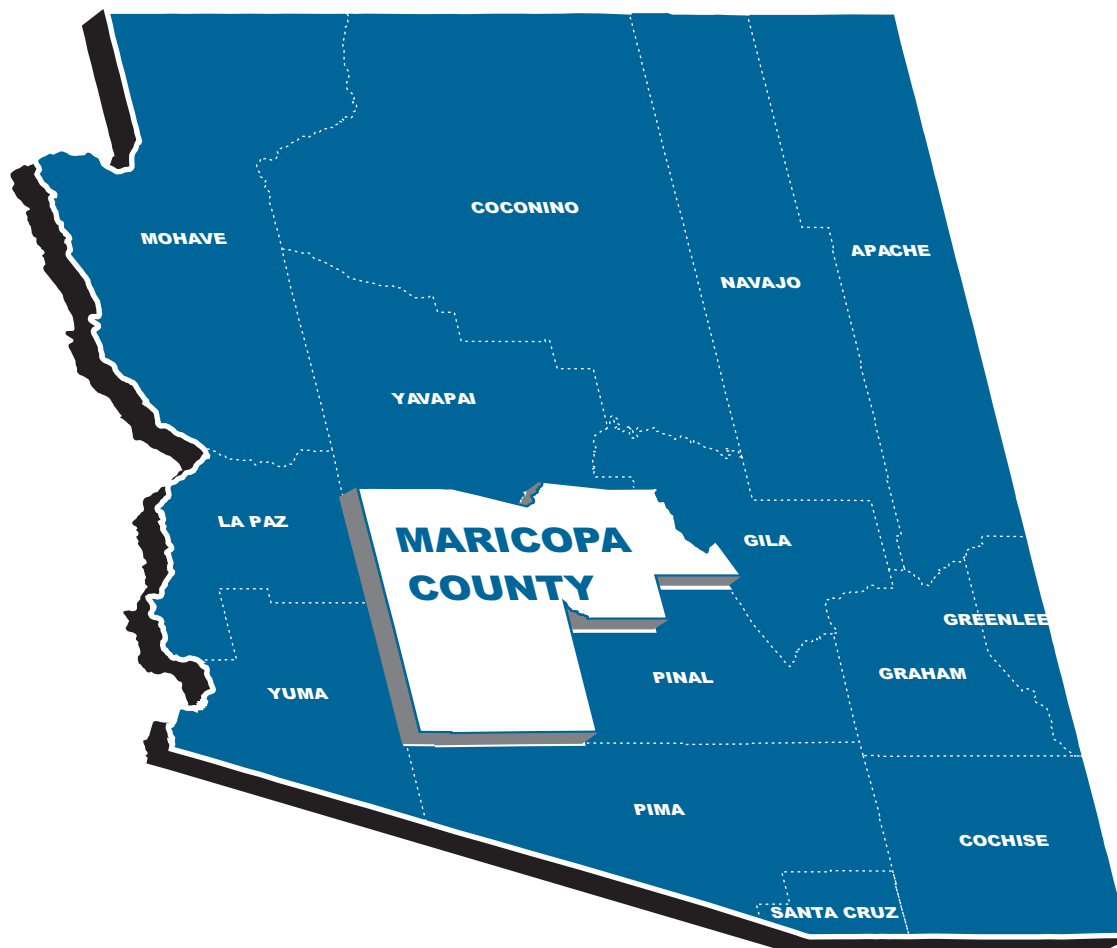


Risk Management and Employee Benefits Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2007



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2007

MARICOPA COUNTY
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| <u>Table of Contents</u> | <u>Page</u> |
|--------------------------------------------------------------------------------------------|--------------------|
| Independent Auditors' Report | 1 |
| Statements of Net Assets—Internal Service Funds | 2 |
| Statements of Revenues, Expenses, and Changes in Fund Net Assets—Internal Service Funds | 3 |
| Statements of Cash Flows—Internal Service Funds | 5 |
| Notes to Financial Statements | 6 |



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying financial statements of the Maricopa County Risk Management and Employee Benefits Trust Funds as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Trust Funds' financial statements are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the governmental activities and aggregate remaining fund information of Maricopa County that is attributable to the Trust Funds. They do not purport to, and do not, present fairly the financial position of Maricopa County as of June 30, 2007, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Risk Management and Employee Benefits Trust Funds as of June 30, 2007, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we will also issue our report on our consideration of the Maricopa County Risk Management and Employee Benefits Trust Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Dennis L. Mattheisen".

Dennis L. Mattheisen, CPA
Financial Audit Director

May 7, 2008

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Net Assets—Internal Service Funds
June 30, 2007

| | <u>Risk Management</u> | <u>Employee Benefits</u> |
|-----------------------------------------|-----------------------------------|-------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents- | | |
| Risk management | \$ 30,975,377 | |
| Environmental insurance claims recovery | 386,534 | |
| Employee benefits | | \$ 44,374,517 |
| Interest receivable | 204,329 | 273,331 |
| Accounts receivable | | 1,136,651 |
| Prepaid insurance | 1,617,304 | 238,215 |
| Total current assets | <u>33,183,544</u> | <u>46,022,714</u> |
| Noncurrent assets: | | |
| Machinery and equipment | 86,951 | |
| Less: accumulated depreciation | 75,994 | |
| Total noncurrent assets | <u>10,957</u> | |
| Total assets | <u>33,194,501</u> | <u>46,022,714</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 1,332,075 | 7,429,019 |
| Employee compensation payable | 145,655 | 145,894 |
| RBUC and IBNR claims | 21,717,037 | 2,206,068 |
| Total current liabilities | <u>23,194,767</u> | <u>9,780,981</u> |
| Noncurrent liabilities: | | |
| RBUC and IBNR claims | 36,012,982 | |
| Total noncurrent liabilities | <u>36,012,982</u> | |
| Total liabilities | <u>59,207,749</u> | <u>9,780,981</u> |
| Net Assets | | |
| Invested in capital assets | 10,957 | |
| Unrestricted (deficit) | (26,024,205) | 36,241,733 |
| Total net assets (deficit) | <u>\$ (26,013,248)</u> | <u>\$ 36,241,733</u> |

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2007

| | Risk Management | Employee Benefits |
|-----------------------------------------------------------------|----------------------------|------------------------------|
| Operating revenues: | | |
| Charges for services | \$ 26,000,000 | |
| County and employee premiums | | \$ 23,269,666 |
| Other income | 387,373 | 57,286 |
| Total operating revenues | 26,387,373 | 23,326,952 |
| Operating expenses: | | |
| Personal services | 1,532,684 | 145,894 |
| Supplies and services | 276,807 | |
| Actuary fees | 42,253 | |
| Consulting and management fees | 284,036 | |
| Brokers' fees | 145,000 | |
| Claims administration service fees | 556,856 | 654,235 |
| Legal expenses | 8,407,981 | |
| Workers' compensation taxes | 526,586 | |
| Claims and insurance: | | |
| Auto liability claims paid | 1,275,627 | |
| Auto liability RBUC and IBNR claims increase in estimate | 1,340,287 | |
| Total auto liability | <u>2,615,914</u> | |
| General liability claims paid | 4,072,737 | |
| General liability RBUC and IBNR claims increase in estimate | 1,700,600 | |
| Total general liability | <u>5,773,337</u> | |
| Workers' compensation claims paid | 3,756,153 | |
| Workers' compensation RBUC and IBNR claims increase in estimate | 5,279 | |
| Total workers' compensation | <u>3,761,432</u> | |
| Medical malpractice claims paid | 4,242,501 | |
| Medical malpractice RBUC and IBNR claims decrease in estimate | (1,059,466) | |
| Total medical malpractice | <u>3,183,035</u> | |
| Auto physical damage claims paid | 607,887 | |
| Auto physical damage RBUC increase in estimate | 64,284 | |
| Total auto physical damage | <u>672,171</u> | |
| Property claims paid | 561,907 | |
| Property claims RBUC decrease in estimate | (237,358) | |
| Total property | <u>324,549</u> | |
| Pharmacy claims paid | | 11,612,603 |
| Pharmacy IBNR claims decrease in estimate | | (355,917) |
| Total pharmacy | | <u>11,256,686</u> |
| Medical claims paid | | 1,351,618 |
| Medical IBNR claims decrease in estimate | | (257,000) |
| Total medical | | <u>1,094,618</u> |

See accompanying notes to financial statements.

(Continued)

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2007
(Continued)

| | <u>Risk Management</u> | <u>Employee Benefits</u> |
|--------------------------------------------------------------|-----------------------------------|-------------------------------------|
| Dental claims paid | | \$ 1,678,024 |
| Dental IBNR claims increase in estimate | | 11,000 |
| Total dental | | <u>1,689,024</u> |
| Short-term disability claims paid | | 1,797,928 |
| Short-term disability IBNR claims increase in estimate | | 36,000 |
| Total short-term disability | | <u>1,833,928</u> |
| Wellness incentives paid | | 139,309 |
| Total wellness | | <u>139,309</u> |
| External prosthetics appliances claims paid | | 9,432 |
| Total general medical | | <u>9,432</u> |
| Unemployment claims | \$ 633,685 | |
| General liability insurance premiums | 1,406,175 | |
| Workers' compensation insurance premiums | 474,011 | |
| Crime insurance premiums | 31,291 | |
| Property insurance premiums | 774,552 | |
| Malpractice insurance premiums | 1,622,259 | |
| Stop loss insurance premiums | | 25,100 |
| Depreciation | 11,750 | |
| Total operating expenses | <u>33,056,364</u> | <u>16,848,226</u> |
| Operating income (loss) | (6,668,991) | 6,478,726 |
| Nonoperating revenues: | | |
| Investment income | 1,489,147 | 1,603,022 |
| Total nonoperating revenues | <u>1,489,147</u> | <u>1,603,022</u> |
| Increase (decrease) in net assets | (5,179,844) | 8,081,748 |
| Total net assets (deficit), July 1, 2006, as restated | <u>(20,833,404)</u> | <u>28,159,985</u> |
| Total net assets (deficit), June 30, 2007 | <u><u>\$ (26,013,248)</u></u> | <u><u>\$ 36,241,733</u></u> |

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 2007

| | Risk Management | Employee Benefits |
|---------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|
| Cash flows from operating activities: | | |
| Receipts from other funds | \$26,000,000 | \$ 24,243,653 |
| Other receipts | 387,373 | 57,286 |
| Payments for fees, supplies, and services | (10,321,053) | (654,235) |
| Payments for insurance claims | (15,150,497) | (9,697,942) |
| Payments for insurance premiums | (4,174,875) | (9,011) |
| Payments to employees | (1,515,105) | |
| Net cash provided by (used for) operating activities | <u>(4,774,157)</u> | <u>13,939,751</u> |
| Cash flows from investing activities: | | |
| Interest received on investments | <u>1,479,785</u> | <u>1,474,277</u> |
| Net increase (decrease) in cash and cash equivalents | (3,294,372) | 15,414,028 |
| Cash and cash equivalents, July 1, 2006 | <u>34,656,283</u> | <u>28,960,489</u> |
| Cash and cash equivalents, June 30, 2007 | <u><u>\$31,361,911</u></u> | <u><u>\$44,374,517</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (6,668,991) | \$ 6,478,726 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 11,750 | |
| Net change in RBUC and IBNR claims, noncurrent portion | 3,164,708 | |
| Changes in assets and liabilities: | | |
| Increase in: | | |
| Accounts payable | | 6,890,972 |
| Employee compensation payable | 17,579 | 145,894 |
| Decrease in: | | |
| Accounts receivable | | 973,987 |
| Prepaid insurance | 133,413 | 16,089 |
| Accounts payable | (81,534) | |
| RBUC and IBNR claims, current portion | (1,351,082) | (565,917) |
| Net cash provided by (used for) operating activities | <u><u>\$ (4,774,157)</u></u> | <u><u>\$13,939,751</u></u> |

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

The County, in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as Risk Management and Employee Benefits Trust Funds (Funds) and all monies held in these Funds are considered unrestricted. The Funds' financial statements are prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The Maricopa County *Comprehensive Annual Financial Report* for the year ended June 30, 2007, will report the Funds as governmental activities on the government-wide financial statements since they predominantly service the County's governmental funds. A summary of the Funds' more significant accounting policies follows.

A. Reporting Entity

The Funds are accounted for as internal service funds of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Funds are administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Funds remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and for certain health benefits (pharmacy, medical, dental, short-term disability, medical incentives, and wellness incentives) to eligible employees and their dependents.

B. Fund Accounting

The Funds' accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Funds' available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, revenues, and expenses.

The Funds' financial transactions are recorded and reported as internal service funds since their operations are financed and operated in a manner similar to private business enterprises.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Presentation and Accounting

The financial statements include statements of net assets; statements of revenues, expenses, and changes in fund net assets; and statements of cash flows.

The statements of net assets provide information about the assets, liabilities, and net assets of the Funds at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to the availability of assets to satisfy the Funds' obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets represent the balance of monies held in the Funds.

The statements of revenues, expenses, and changes in fund net assets provide information about the Funds' financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Generally, charges for services and premiums are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be nonoperating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The statements of cash flows provide information about the Funds' sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital and related financing, or investing.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Funds are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Funds apply only those applicable Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Funds have chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Funds consider cash on hand, demand deposits, cash on deposit with the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

E. Machinery and Equipment

Machinery and equipment are capitalized at cost. Depreciation of machinery and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of machinery and equipment range from 3 to 10 years.

F. Employee Compensation Payable

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of vacation leave, but any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a \$10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2007, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end and, therefore, are reported as a current liability.

NOTE 2 - Beginning Balance Restated

On July 1, 2006, Maricopa County restated the Employee Benefits Trust Fund's net assets balance for corrections pertaining to medical incentives payable reported as part of RBUC and IBNR claims liability, current portion, in error. These liabilities represented estimated incentives payable to the County's health care provider which were not due and payable at June 30, 2006.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

| | Employee Benefits Trust Fund |
|--------------------------------------------------------|---------------------------------------------|
| Net assets as of June 30, 2006, as previously reported | \$27,559,985 |
| Correction of error | 600,000 |
| Net assets as of July 1, 2006, as restated | <u>\$28,159,985</u> |

NOTE 3 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Funds to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

Deposits—At June 30, 2007, the carrying amount of the Funds' deposits was \$3,327,456, and the bank balance was \$3,335,514. The Funds follow the County's policies requiring collateralization of all deposits by at least 101% of the deposits not covered by depository insurance. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

At June 30, 2007, \$1,282,232 of the Funds' bank balance was uninsured and uncollateralized. The deposits pertain totally to the Employee Benefits Trust Fund.

Investments—The Funds' investments at June 30, 2007, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Funds' investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Funds' portion in the pool is not identified with specific investments.

Credit Risk—The Funds follow the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2007, the Funds' investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

Interest rate risk—It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2007, the Funds had investments of \$72,408,872 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 478 days.

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

| | |
|------------------------------------|---------------------|
| Cash, deposits, and investments: | |
| Cash on hand | \$ 100 |
| Amount of deposits | 3,327,456 |
| County Treasurer's Investment Pool | <u>72,408,872</u> |
| Total | <u>\$75,736,428</u> |

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

NOTE 4 - Liabilities for Unpaid Claims

The Funds provide for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The County is liable for any single claim up to the insurance deductible or self-insurance retention (SIR), whichever is applicable, and the excess over insurance limits.

The following insurance deductibles, self-insurance retentions (SIR), and insurance limits were in effect during fiscal year 2006-07:

| <u>Policy Type</u> | <u>Deductible</u> | <u>SIR</u> | <u>Limit</u> |
|-----------------------------------|-------------------|--------------|--------------|
| General and auto liability | | \$ 5,000,000 | \$ 5,000,000 |
| Excess general and auto liability | | | 25,000,000 |
| Property/inland marine | \$ 100,000 | | 300,000,000 |
| Boiler and machinery | 100,000 | | 50,000,000 |
| Earthquake | 100,000 | | 50,000,000 |
| Flood zones except A and V | 500,000 | | 25,000,000 |
| Flood zones A and V | 500,000 | | 10,000,000 |
| Difference in conditions | | | 10,000,000 |
| Employee dishonesty | 100,000 | | 10,000,000 |
| Faithful performance of duty | 100,000 | | 1,000,000 |
| Theft and robbery | 10,000 | | 1,000,000 |
| Computer and wire transfer fraud | 100,000 | | 10,000,000 |
| Workers' compensation | | 2,000,000 | 25,000,000 |
| Employer's liability | | | 2,000,000 |
| Medical malpractice | | 5,000,000 | 15,000,000 |
| Excess medical malpractice | | | 10,000,000 |

Settled claims have not exceeded the above commercial insurance coverage limits over the past 3 years.

Risk Management Trust Fund

Liabilities for unpaid claims are estimates of the ultimate cost of claims that include the insurance deductible, the SIR, and the excess over insurance limits. The estimates are determined by an independent actuary using the following actuarial methods: reported loss development, paid loss development, Bornhuetter-Ferguson reported loss and paid loss, frequency times severity, expected loss, incremental paid-workers' compensation, paid

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

allocated loss adjustment expense to paid loss development-automobile liability, and tail liability for medical malpractice. Total liabilities are equal to the sum of:

1. Reported but unpaid claims (RBUC), which represent the estimated liability on reported claims established by the Risk Management department and
2. Incurred but not reported (IBNR) reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. Therefore, IBNR is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted 55 percent confidence level assuming a 4.50 percent annual rate of return on investments.

The total liabilities reported at June 30, 2007, categorized by insurable area follow:

| | <u>Total Liabilities</u> |
|-----------------------|---------------------------------|
| Auto liability | \$ 2,140,022 |
| General liability | 32,180,129 |
| Workers' compensation | 9,707,098 |
| Medical malpractice | 13,094,200 |
| Auto physical damage | 289,975 |
| Property | 318,595 |
| Total | <u>\$57,730,019</u> |

The total estimates of unpaid claim liabilities of \$57,730,019 at June 30, 2007, increased by \$1,813,626 from last year's balance of \$55,916,393. The areas that increased were general liability and auto liability.

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, and property claims follow:

| | <u>Balance</u> | <u>Current-Year</u> | <u>Claims</u> | <u>Balance</u> |
|---------|-----------------------|----------------------------|------------------------|-----------------------|
| | <u>July 1</u> | <u>Changes in</u> | <u>Payments</u> | <u>June 30</u> |
| | | <u>Estimates</u> | | |
| 2004-05 | \$42,532,613 | \$15,923,337 | \$(7,965,399) | \$50,490,551 |
| 2005-06 | 50,490,551 | 17,605,701 | (12,179,859) | 55,916,393 |
| 2006-07 | 55,916,393 | 16,330,438 | (14,516,812) | 57,730,019 |

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

Of these liabilities, \$21,717,037 were actuarially estimated to be paid within the next 12 months.

Employee Benefits Trust Fund

The liability for pharmacy (Coinsurance Plan), medical, dental, and short-term disability claims as shown below is based on the fiscal year 2006-07 actuarial reports. The Consumer Choice Plan portion of the liability for pharmacy is based on the unused portion of the members' pharmacy accounts administered by Walgreens Health Initiatives.

Accrued liabilities at June 30, 2007, for each insurable area follow:

| | |
|-----------------------|--------------------|
| Pharmacy | \$1,327,068 |
| Medical | 338,000 |
| Dental | 278,000 |
| Short-term disability | 263,000 |
| Total | <u>\$2,206,068</u> |

Changes in the liabilities for unpaid pharmacy, medical, dental, and short-term disability claims follow:

| | Balance July 1 <u>as restated</u> | Current-Year Claims and Changes in <u>Estimates</u> | Claims <u>Payments</u> | Balance June 30 <u></u> |
|---------|--------------------------------------------------|------------------------------------------------------------------------|-----------------------------------|----------------------------------------|
| 2004-05 | \$5,139,150 | \$33,271,440 | \$(34,329,655) | \$4,080,935 |
| 2005-06 | 4,080,935 | 26,446,873 | (27,155,823) | 3,371,985 |
| 2006-07 | 2,771,985 | 16,022,997 | (16,588,914) | 2,206,068 |

It is estimated that the June 30, 2007, liabilities balance of \$2,206,068 will be paid within the next 12 months.

NOTE 5 - Net Assets Deficit

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1995-96 through 1998-99. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net assets deficit of \$23,321,519 at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2007, the total net assets deficit was \$26,013,248. This is primarily due to the Risk Management Trust Fund not being funded for noncurrent accrued claim liabilities which are not considered when determining funding for each fiscal year.

NOTE 6 - Letter of Credit

On July 1, 2006, the County renewed its workers' compensation insurance with a self-insured retention of \$2,000,000. As a result, the Industrial Commission of Arizona required the County to secure an irrevocable letter of credit in the amount of \$9.8 million with a financial institution to cover unfunded workers' compensation claims. During fiscal year 2006-07, the letter of credit had not been drawn upon. The letter of credit was renewed to July 1, 2008 for \$5.9 million.

NOTE 7 - Retirement Plan

Plan Description—The Risk Management Trust Fund contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Risk Management Trust Fund's contribution rates. For the year ended June 30, 2007, active plan members and the Risk Management Trust Fund were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Risk Management Trust Fund's contributions to the System for the years ended June 30, 2007, 2006, and 2005 were \$107,105, \$79,608, and \$56,628, respectively, which were equal to the required contributions for the year.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2007

NOTE 8 - Subsequent Events

On July 1, 2007, the County became self-insured for medical, behavioral health, and vision benefits for all County employees. Prior to this date, with the exception of the medical Health Select Plan, these benefits were fully insured through purchased commercial insurance.